

Sullivan County

Type of meeting: Board of Commissioners Special Exit Interview of the Auditors of the County's FY08 Audited Financials and Management Letter

Date/Time: Thursday, October 23, 2008; 3 PM

Place: Newport – Sugar River Bank Community Room

Attendees: Commissioner Jeffrey Barrette – *Chair*, Bennie Nelson – *Vice Chair* and Ethel Jarvis – *Clerk*; Greg Chanis – *County Administrator*; Melanson Heath & Associates President Frank Biron and Sheryl Stephens-Burke; Ted Purdy – *S.C.H.C. Administrator*; County Attorney Marc Hathaway; County High Sheriff Michael Prozzo; Ross L. Cunningham – DOC Superintendent; Sharron King – *Registrar of Deeds*; and Sharon Johnson-Callum (minute taker).

Public Attendees: State – County Delegates Peter Franklin, Ray Gagnon, Larry Converse, Suzanne Gottling, John Cloutier and Beverly Rodeschin; Andy Austin – *Claremont Assistant Mayor*; Donald Clarke – *Town & Country Realtor/Claremont Citizen*; Chris Vinci (running for Delegate) and wife; Ben Bulkeley – *Eagle Times Reporter*.

3:01 The Chair, Jeffrey Barrette, brought the meeting to order. The *Chair* led the *Pledge of Allegiance*. The Chair introduced both Mr. Biron and Ms. Stephens-Burke. The Chair noted first they'd turn the meeting over to the FY08 County's auditors, followed by Commissioner questions, then questions from the Delegates, and finally open questions from the public. The Chair noted questions would be limited to five minutes.

Annual Financial Statements,

Mr. Frank Biron discussed and reviewed key numbers within the Annual Financial Statements Year Ended June 30, 2008 [Appendix A.1-31]. Those areas included:

Page 1 - Independent Auditor's Report: Mr. Biron explained they were hired to audit the County's records and to provide an opinion as to whether the statements were in accordance with Generally Accepted Account Principals (GAAP). Their conclusion: the County is within GAAP, there are no exceptions to that and this is what they would call a "clean opinion".

Page 15 – Statement of Revenues and Other Sources, and Expenditures and Other Uses – Budget and Actual – All Budgeted Funds: Summarizes the results of operations for the year. This is Budget vs. Actual. The columns represented on this page include: Original budget - what the County opened the year with. Final budget - what the County closed the year with. Also reflects Actual Amount and Variances. Top part of page illustrates incoming revenues, and bottom part reflects expenditures.

- ◊ \$1,790,895 is the shortfall in revenues of the nursing home, approximately \$1.8 million, a positive on the revenue and expenditures on Registry of Deeds, \$1,249,038 appropriated but not spent at end of the year – a lot due to the County wide "freeze", \$-302,017 County did not do as good as budget

to this tune, however, when compared to prior year at negative 2.3 million, it's a substantial improvement. He noted revenues came in higher for grants, at a positive variance of approximately \$13,000. He discussed transfers in an out, which net \$10,000 – one of the issues addressed in Management Letter – transfers in 2008 and 2007 were confusing, so made recommendations to stream line so as not as complicated in future. The "freeze" recouped a lot of the shortfall in the nursing home. Mr. Biron noted, the -302,017 figure was less than that when they arrived, but they made a couple entries: 1) dealing with the remaining potential liability for future claims, due to the change in health care plans, that had to run through the system by approximately \$50,000 and 2) increased allowance for doubtful accounts, AR, by \$154,000.

Page 17 Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets For The Year Ended June 30, 2008 – This is the nursing home's income and expenses summarized for year, Change in Net Asset of \$-1,529,878: nursing home loss, revenues not high enough to meet expenditures, \$436,203 depreciation expense auditors recorded during audit per GAAP, but County, as most municipalities, does not budget for depreciation; the County budgets the money when it's spent, or as capital outlay. If you add the \$200,000 to bottom line, it would have been a \$1.3 million dollar loss.

Page 16 Proprietary Fund State of Net Assets – This is the "balance sheet" and summarizes assets and liabilities. Receivables \$2.1 million, largest of the liquid assets – the balance increased from prior year, so they increased the allowance for doubtful accounts. Net of accumulated depreciation reflected is \$4.2 million, the facilities & equipment – large capital assets. Advance from other funds – amount of money nursing owes to General Fund (GF) \$5,092,129; its' not likely nursing home can repay within 12 months, its reported as non current liability; or a non-current asset in the GF. Net Assets: \$232,909 nursing home positive equity: 1) \$4.293 million – capital assets, per GAAP, must be reported separately. \$4.060 negative bottom line of nursing home, working capital, if it did not have it's assets, so that amount is the amount needed to be raised – owed to the GF.

General Fund (GF) Page 13 Statement of Revenues, Expenditures, and Changes in Fund Balances: \$849,343 GF surplus, revenues more than expenditures due to expenditure freeze. Included on this page, is treatment of prior year encumbrances: at end of 6/30/07 there were some open PO's of approximately \$151,000, this was part of '07 budget, but was tracked on the actual vs. budget page in FY07 as expenditures then. With this page, as money was spent in FY '08 \$10,935,934 includes \$151,000, prior year. Point: to reconcile this page vs. Budget vs. Actual page, take \$849,343 add \$151,000 expenses = approximately \$1 million, and that \$1 million for the GF is what is shown on the Budget Vs. Actual Page for a surplus.

Page 11 Governmental Funds Balance Sheet – Total GF revenues \$5,479,301. \$5,092,139 is the advance the nursing home owes the GF to pay it's bills. \$419,831 relates to self insurance program, estimate of claims needing to run through the system; the number looks like it's higher than what will be needed, there may be extra liability when the County closes out in FY09. Revenue anticipation notes payable \$3,125,000 is the bank loan County dependent on to pay bills, it was refinanced to lower interest rate of 2.5%, it was a \$4 million line of credit. Reserved for advances – same number owed to GF from Enterprise Fund – if any long term assets in GF, they must be reserved in the fund balance. Whatever is paid down on

the \$5,092,139 reserve - from the nursing home - will reduce the reserve and will affect the next line; you normally want the GF undesignated not in a negative but a zero or positive - bond rating agencies pay attention to this line and would like it to be 5% of your budget. In 2009, the County is raising 1 million, to reduce the loan, if it works out, the \$3.9 will be reduced by the \$1 million.

Mr. Biron opened the floor to questions.

Commissioner Barrette, referring to the balance sheet page, "the advance for other funds goes back to inception of nursing home and built up over a period of years?" Mr. Biron indicated "Yes. \$3.4 million last year and has increased by \$1.6 represents money raised through taxation to pay nursing home bills, that the nursing home owes back to the GF".

Commissioner Barrette asked how this is addressed moving forward? "How does \$3.9 million relate to the County deficit, as most referred to \$2.5 million to pay deficit off? This \$3.9 number is the balance sheet of entire County, correct?" Mr. Biron indicated, "Assuming you get the \$1 million, which is budgeted and should happen, the nursing home equity will go up \$1 million, it will have \$1 million to pay off the loan, and as a result the undesignated fund balance, which is \$3.9, will hopefully be \$2.9 million. That \$1 million will hopefully reduce the deficit in nursing home and GF." Barrette: "How does \$3.9 relate to actual county deficit? Most are familiar with 2.5 million as bases as to what we have to pay off, that said, this 3.9 is balance sheet of the entire County, correct? Biron: "Yes. 2.5 is budget vs. actual bottom line a year ago. You want to avoid borrowing money from the bank to pay bills." Barrette: "we don't want to borrow before end of FY, but year begins in July, and we don't see tax dollars until December, how do you achieve that, carry fund balance over?" Biron: that why I mentioned the bond rating agencies and the number to be around 5%, that's the internal working capital cash to pay your bills." Barrette noted, "We know \$2.5 of \$3.9 is from the FY07 audited, \$300,000 is from FY08, and \$1.1 million was previous?" Mr. Biron: "it had to be previous, it was at the point no one realized nursing home was getting into as much trouble as it did, so at that point, it was not looked as a long term loan, but a short term loan, so there was no reserve in fund balance at the bottom of the page. The equivalent of \$5.092 did not exist back in June 30, 2006; therefore, not as nearly visible until 2007 audit." Nelson: "if we come in on budget, but if revenues are over, it will also reduce that amount?" Biron: "Yes." Mr. Chanis pointed out the \$3.9 figure does not include the nursing home's Account Receivables on the books; therefore, if the AR's were paid off today, it would reduce the 3.9 amount. Mr. Biron concurred, "if you could accelerate collecting the uncollectibles, it would decrease the 3.9 figure. The Receivables from nursing of as of 6/30/08 totaled 2.1 million and would decrease the 5 million if collected." Mr. Biron pointed out the nursing home is working on AR collections.

At this point, the Chair opened the floor to questions from the Delegates regarding the financials

Rep. Rodeschin questioned what kind of effect the financial condition of the County would have if the County was going for a bond for the Community Corrections Center project? Mr. Biron noted bond-rating companies would not look at the audited financials favorably, due to deficits, and the interest rates would be higher, as risk would be higher than an Triple A community. Commissioner Barrette questioned, as

a municipality, is it rare for us to not carry long-term debt, to not have bonding? Mr. Biron indicated "Yes", "most municipalities with capital improvements to be made would have bonds, particularly ones with low interest rates". Barrette: "that said, some of our financial condition has to do with making capital expenditures without bonding, in fact, paying them out of the GF".

Rep. Gottling: in the 2006 audited financials there was a \$500,000 in the RAN, but a \$2.1 fund balance, and suggested, if that was looked at, then they could begin to see, unless you were absolutely on budget, the County was going to be in trouble. Mr. Biron noted the amount of bank notes in itself might not be an indicator, as you could have money in bank at same time – it's a timing thing, when you pay your bills and when receipts come in. Gottling questioned if it could have been seen with a huge decrease in fund balance? Mr. Biron concurred a decrease in fund balance is an indicator.

Rep. Franklin: "in the 2006 audit, it was fairly clear we were in trouble, questions asked at the exit interview at that item and part of the management letter, we should not put on budget what we thought was going to be budget surplus and spend that money, so in 2006 we were aware, it did not happen yesterday. The GF this year, is the number we have to pay down?" Biron: "in the long term, it's in the best interest of the County to get the negative 3.9 down to zero." Franklin: "last year that number was \$3.2 million, so it went up by \$700,000 this year." Biron: "some relates to receivables increased from 07 to 08, which, has the affect, as nursing home did not have the cash, they had to borrow more." Franklin: "whatever the genesis of that number, \$3.2, you are being very consistent with saying that number is the number we have to pay down. In the budget this year, 1 million line, in order to have that line be worth the \$1 million at end of year, our budget, actual cash, has to be even or a surplus, if we have a deficit, every dollar of deficit will reduce our contra line." Biron: "Yes." Franklin: "the position of the County this year, in order for County to make progress we must end with a balanced budget." Biron: "that balanced budget would actually be a surplus of \$1 million, anything less will reduce that \$1 million pay down, and anything more would help." Franklin: "important we have controls on the budget, which I believe you addressed in the Management Report, where cash account is monitored monthly, which I hope will get done." Commissioner Barrette: "Mr. Franklin brings up good points, we need to stay within budget this year and that's essentially what we tried to do, we worked diligently through the budget process, to make sure what is placed for revenues is attainable; as it currently sits, we are \$75,000 short on revenue and several hundred thousand dollars short on expenses across the County, meaning, we are currently running in the black. We are on budget with respect to beds filled in nursing home, the \$75,000 should not be growing in terms of revenue shortfall at the nursing home." Franklin: "I don't understand how you think you are breaking even when you still have to borrow \$1 million." Barrette: noted he did not say cash balance, but fund balance. Franklin does not want them to get complacent. All Commissioners confirmed they were not becoming complacent.

Treasurer Cynthia Sweeney, inserted: "kudos should be given to Mr. Chanis, the Commissioners and Department Heads in reducing the deficit to \$300,000".

Rep. Rodeschin indicated she heard the Delegation Chair was looking at having another meeting with auditors and what would be contract increase? Commissioner Barrette noted the auditors were not obligated to be here today through contractual

obligations, it's considered an informational session, it's a value added service they really appreciate, but beyond this, is all billable hours.

Andy Austin, Claremont Assistant Mayor requested clarification on issues discussed earlier: "in 2006 the bill was 2.2 million? This year it's 3.9?" Commissioner Barrette noted that was FY 07 and FY 08. Austin: "we borrowed money to compensate for that right?" Barrette: "we always borrow for tax anticipation, our FY starts in July, we are not funded by tax money until December, so there is always that gap that needs to be filled. It's a question of how early and how much you borrow – a good indication of the financial condition of the County, if you know what you are looking at." Austin: "so, it's grown by \$1.7 million, due to County home?" Mr. Biron noted it was 2.5 last year. Biron: "the 3.9 a year ago was 3.2, so it increased, and \$300,000 was due to the nursing home loss, the rest was due to receivables." Barrette: noted "they fell behind in FY08, but some will be paid through receivables of nursing home, assuming they are collectible. One of the budgetary ways they are dealing with the deficit is to budget for a contra revenue line." Biron: "you turned the corner and the bleeding came to a stop between FY07 and FY08." Barrette: "run out cost" due to the change in health insurance vendors, we should be returning \$300,000 to bottom line due to this change. Mr. Biron noted he understood there was \$60,000 spent in first three months, they budgeted \$440,000.

Mr. Don Clarke: "My recollection of the 2006 audit, there was a positive fund balance, we budgeted part of the positive fund balance to be spent in 2007 budget, we had a positive fund balance two – three years in a row, all be it, we never maintained the 5%." Ms. Stephens-Burke: "after 2006 audit when you realized the fund balance was low, you changed the amount you were going to use to balance the 07 by a couple hundred thousand dollars." Mr. Clarke concurred, "We voted to spend part of the fund balance." Mr. Biron: "in 2006, there was 1.2 million fund balance used as a source in the budget, in looking back, the loan, the money the nursing home owed to the GF was \$1.4 million; so at that time, it was not realized there was going to be a big problem." Commissioner Nelson: "In recollection, it was to keep taxes level, and in hind site, it may not have been the best decision." Mr. Franklin: "that was the time we first carried a RAN short term debt, from one year to next; prior to FY05 there was no need to borrow and not be able to repay when taxes came in, that's when we started seeing short term debt being carried over."

Mr. Franklin: "the amount of grant money carried as debt, \$150,000, is roughly same as prior fiscal year. Last year you said it was part of the \$3.2 million fund balance." Biron: "No, that is above and beyond, the grant issue is being looked into." Chanis: "The audit identifies negative fund balances and does not tell you there are others that have positive fund balances. There are two in particular that make up the majority. We've started a process to identify each inactive fund balances and they pretty much balance each other out. We hope to finish the process this year. We believe they are within several thousands looking at the positive and negative." Biron: hypothesized that, "revenues may have gone into one line and the expenses came from another, and per GAAP, they are required to report in footnotes any deficits, which is why only deficits picked up". Franklin: could not understand why only deficits are picked up and not the surpluses. Biron: "We did not understand, at the time, they were related to each other." He noted they are reflected on Page 11, 3rd column – Nonmajor Governmental Funds, which shows a positive \$25,644, a cumulative of all the grants. The negative \$155,000, is part of the \$25,644, so there are positives that offset the negatives.

Management Letter For the Year Ended June 30, 2008, Presented by Sheryl Stephens-Burke

Current Year Recommendations (Page 3 & 4)

1. Improve Controls Over Nursing Home Billing Procedures - Signing off on resident status change forms, approving of some monthly billing reports, and recommending receipts be handled by someone independent of the billing function. Ms. Stephens-Burke noted the County has taken steps to address the recommendations.
2. Improve Controls Over Nursing Home Timekeeping Procedures - There were quite a few manual punches going through the timekeeping and recommended everyone use the hand punch and avoid using manual as override to system. Ms. Stephens-Burke noted the County has looked into this and made changes to procedures.

Status of Prior Year Recommendations (Page 5)

3. Monitor Results of Operations and Establish Fiscal Recovery Plan (Material Weakness) - Have talked about this already, raising \$1 million in 2009 and has changed what has budgeted for nursing home revenues to be more realistic.
4. Clarify Nursing Home Budget (Material Weakness) - In the past, it was difficult to identify nursing budget, as revenues and expenses did not equal. In response the County eliminated fund 30 and 42, budgeting HR costs in the lines they relate to.
5. Close Funds 30 and 42 (Material Weakness) - they understand Fund 30 and 42 were eliminated. This will help with nursing home cost report; it was extremely difficult what the actual cost was as they had to separate items from general fund and others.
6. Monitor Special Revenue Grant Funds (Material Weakness) - There were two large amount lines on the books for several years. They recommend the County include the reclassification of individual fund balances from the "control account" as part of the annual General Ledger (GL) roll forward process and they continue to recommend the deficit balances be addressed and inactive accounts be closed out. Since the audit, the County has been reviewing every special revenue fund to assess active/inactive status, with appropriate transfers to be made to address surplus/deficit balance before closing the fund.
7. Consider Implementing Internal Control Improvements - This has not been addressed, but going forward should be. We understand the County is advertising for a finance person who can do reports and establish internal control systems.
8. Improve Budgeting (Material Weakness) - In total the County budget was balanced, but not when broken down into parts. They recommend an overall budget, comprised of individual fund budgets that are balanced, be used. The County has eliminated 42 and 30 and plans to record entries in the GL to reflect budgeted surplus/deficits from Nursing Home operations. We recommend you improve this process and post transfers in GL system to reflect those implied transfers - for example nursing home deficit borrowing from GF. Commissioner Barrette confirmed they already discussed this.
9. Record Budgeted Transfers (Material Weakness) - This issue continued to exist in 2008 and they continue to recommend the transfers for budgeted surplus/deficits of individual funds be made. The County is addressing the

issue and intends to include the transfers in FY09, and incorporate them into future budgets.

The Chair opened the floor to Commissioner questions

Commissioner Barrette: "Is the County appropriately addressing the financial issues?" Ms. Stephens-Burke: "Based on what we are seeing here, you froze accounts, eliminated the funds 30 & 42, you have definitely taken steps to address the problems." Mr. Biron: "All are receptive to taking steps to make changes." Commissioner Barrette questioned what the auditors opinion was on what the County needed as a financial person, he pointed out they are advertising for and "Accounting Manager". Mr. Stephens-Burke: "It should be a strong accounting person, CPA level, with governmental accounting expertise." She see that person helping with monthly financial reporting and pulling together a full picture of the County on monthly basis; an "on hands" person, able to accurately understand internal controls and duties, someone who could project and assess operations, then make recommendations. Commissioner Barrette pointed out Melanson Heath helped the County with monthly reports, they've seen the changes, and how they budget ... he asked it it looked like they are on the track with budgeting? Ms. Stephens-Burke confirmed "Absolutely. Eliminating fund 30 and fund 42, was a big step with this".

The Chair opened the floor to questions from Delegation members

Rep. Rodeschin highly recommends the Board hiring a county financial person with qualifications the auditors have previously requested in order to address these financials issues. Barrette confirmed the County was advertising for an Accounting Manager. A brief debate commenced on the title and perception of function. A question was prompted to Mr. Biron on the type of person they recommended. Mr. Biron noted this person will be in charge of the General Ledger, chart of accounts, and should be a numbers person, not just a thinker, but to roll up their sleeves and do it - a "Comptroller". Ms. Stephens-Burke inserted the person must be able to understand what all lines mean. Mr. Biron noted he was "very impressed with the knowledge Mr. Chanis has and how quickly he learns, he knows the inflows and outflows and how the budget works. The County now needs someone to fix things." Rep. Rodeschin pointed out a study in the '90's identified the County needed to go forward by hiring someone experienced with Medicare and Medicaid. Mr. Chanis confirmed three resumes were received in response to the advertisement; the job description was reviewed and approved by Melanson Heath and Mr. Graham, and on line at www.sullivancountynh.gov . Barrette confirmed they are searching. Nelson: "the position has been budgeted only for eight weeks". Chanis confirmed the ad was out there five-six weeks ago and the job description incorporates all the needs the Delegates cited. Rodeschin again stressed the importance to have the Finance Director position at the nursing home in particular.

Rep. Franklin: "County Delegation has supported this position for quite some time and are very happy they are moving ahead and wish it could be done quickly, one problem that makes it important we have a finance director, is because one thing Ms. Burke brought up already, is that our individual funds are not balanced, so that looking over all that, seeing county is in balance, can be misleading, without, as long as we continue to have budgets which are not fund balance, it's going to be an ongoing problem." Biron: "to have someone who would have the knowledge to make those transfers and record them through the system, so it actually gets done."

Franklin: "the Delegation has insisted that all transfers made line to line should be brought forward to Delegation in timely way and transfers are done prospectively not retrospectively after transfer made. Permission should come before transfer is made, in this way, all department heads would be forced to become aware as soon as they realize their department is going out of balance, that knowledge would be transferred to Commissioner and Delegation so that remedial action can be taken before the fact, not after the fact." Barrette: "I have issues with that, in that you moved items you knew the County would be overspent in the first two months of the budget, and, you moved them, as the Delegation, so that we have to come to them in the first two months in the fiscal year, with transfers. I have a very serious problem with that." Austin: "Is there a limit on transfers?" Barrette: "Anything over \$5,000." Austin: "I call that micro management. It does not show strength in your department heads and County Commissioners. If they are doing that, it's wrong. You have people in the County departments that can be trusted. When Delegation starts doing this, you are asking for trouble in the long run."

Sheriff Prozzo referred to Page 11, "\$3.9 is a deficit of the County, made up of deficit from nursing home from County and general fund?" Biron concurred. Sheriff: "Prior years it was \$3.2 and we are adding to that every year; you stated we should shoot for this to be zero. How are you going to get rid of the \$3.9 if we are adding to this? It's a dike that's leaking. We either decide we're going to have a deficit in the nursing home every year or we take from other departments, such as the Commissioners did this, year, by freezing funds." Biron: "The deficit increased, as budgeted revenues were way over stated, in FY09, I understand they used conservative revenue budget, and 2nd they did a contra reduction to local revenue budget, so you have a built in surplus, so bleeding should stop and it should go the away." Sheriff: "If we come in even, assuming Delegation puts in another \$1 million, we are looking at this that we need to hold all to get there." Barrette: "What we are actually talking about, the long and short, whether or not we are subsidizing our nursing home in the budget. This year we subsidized it by \$1.7 million, with an additional \$1 million that previously we have not done. That said, every other County nursing home in the state is subsidized through their GF. Sullivan is on the very low end and is not in a unique situation."

Mr. Clarke: "How, when you budget \$1.7 million deficit, does that change the balance between nursing home and general fund?" Biron: "If revenues are not as much as expenditures, therefore we need 1.7 million of tax dollars, that is not going to help anything, it will just break even, so we need that extra \$1 million besides that. Clarke: how does it break even? The only way you can stop that bleeding would be to put in the nursing home budget 1.7 of tax revenue. Biron: in a round about way we do that through budgeted transfer from GF, it has the same affect, adding to the revenues of the nursing home. The only way to solve this is through the \$1Million contra revenues.

Mr. Franklin: "There is confusion on what the deficit was, if I understand, the undesignated fund balance, -3.9, is the number we must raise outside of the budget and pay down?" Biron: "...and, or hope, operating results come out better than anticipated." Franklin: "If we had a balanced budget and it comes through as balanced budget, we also need to raise an extra million to get out of the bind we are in. At this point in time, it's going to take \$1 million each year for four (4) more years." Barrette: "No. We are already in one year, so it will be three (3) more years."

Mr. Franklin: "It's somewhat misleading to talk of only subsidizing of the nursing home. The County pays extra money to support nursing home residents all over state. We also pay for corrections system that does not have revenue. The nursing home does have revenue - we just make up the difference. We 100% fund the correction system. We fund a kind of human services and that is par to the county, and, a responsibility we all accept and must pay for." Barrette: "There is nothing in statutes that says we have to have a nursing home. If we are going to pay for it, it's better we have control over the cost structure. We have a lot things that are out of our hands, but that seems to be point of contention in the County which is why it's a topic of discussion."

Rep. Gagnon: "We need to think about occupancy - increasing it to 95%, reducing expenditures in debt. To do that, the Commissioners and Delegates need to come up with policy initiatives, and say: lets take the nursing home off the political football field to make more effective; and, admit we have a county wide responsibility to the frail. An agreement must happen within the Delegation."

Mr. Marc Hathaway, County Attorney: "This is just an observation, we have legal obligation far less expensive in support of County home. When we talk about obligation, we have legal obligation to pay 50% of the cost. Our financial obligation, if we chose to undertake, is more than our legal obligation and that's political decision we are making." Barrette: "has never seen the obligation on paper", but concurred. Hathaway: "How much are we willing to spend to do what we think we should do? It's unwise not to have that conversation." Mr. Chanis: "My understanding is that the County obligation is to fund 50% of the non federal share of the Medicaid eligible residents. The cost of that is in the human services lines of the county. If nursing home was to disappear tomorrow, and those Medicaid eligible resident were elsewhere, our obligation would remain the same today in the human services budget. Any subsidy in Fund 40 is over and above our legal obligation."

Mr. Clarke: reminder to present and future members of Delegation, that the "non-federal share on 6/30/2010, becomes 100%, both in County and private nursing homes, through HB2 with cap; through a MOU with 10 counties and HHS; law says, now, we fund 100% of share, but that agreement expires 2010, and unless changed by legislature, that is where we will be." Mr. Chanis: "That is a separate issue than operations at nursing home." Clarke: "We are in great danger, considering economic environment both at federal and state level, which is why the County needs to be part of that conversation." Barrette concurred.

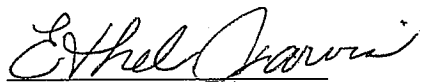
Rep. Franklin directed the following question to Mr. Biron: "Going back to financial questions, I asked last year, but never got an answer. Did you re-look at payments made to Genesis to see if there were any bills from Genesis billed according to contract and have you found and answer to that?" Ms. Stephens-Burke recalled the question, "In 2007 audit we attempted to look but did not have enough information." She recalls he did ask again this year, but was told it was addressed. Commissioner Barrette: "They performed extensive research. Auditors are here for the yearly financial year end audit. We addressed those issues to best of their ability and showed you everything. To bring this to another level and waste their time will not happen while he's a Commissioner." He noted they made it very clear "If you brought something new we would look at this." Franklin: "I asked for invoices and was shown a fixed management agreement, but it was a percentage of revenues." Mr. Chanis noted he disagreed. "We provided you a lengthy response, gave the report to Franklin and other Delegates. That response answered the questions asked

and pointed out errors in original document errors in calculation. This was copied to Commissioners, Delegates, and the County Attorney; the Commissioners voted to not pursue this. To say you did not receive this, is simply untrue". Mr. Franklin: "They were not paid by revenue, they were paid by invoice, and all invoices were for a fixed management fee, not derived from revenue, and if they were, it would be less." Barrette and Chanis disagreed, noting the County would have paid more. Chanis: "Our calculations showed you net revenue. Based on contractual obligation we would have owed more." Rep. Franklin: "They were only paid for 9 months not for year."

The Chair ended the conversation, asked for further public questions or comments regarding the audit. No other questions/comments were noted.

4:46 Motion made: to adjourn the meeting
Made by: Jarvis. Seconded by: Nelson.
Voice vote: All in favor.

Respectfully submitted,



Ethel Jarvis, Clerk
Board of Commissioners

EJ/s.j-c.

Date signed: 1-21-09

SULLIVAN COUNTY, NEW HAMPSHIRE

Annual Financial Statements

For the Year Ended June 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - All Budgeted Funds	15
Proprietary Funds:	
Statement of Net Assets	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets	17
Statement of Cash Flows	18
Notes to Financial Statements	19



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

102 Perimeter Road
Nashua, NH 03063-1301
Tel (603) 882-1111 • Fax (603) 882-9456
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Sullivan County
Newport, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sullivan County, New Hampshire, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Sullivan County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sullivan County, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presenta-

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

tion of the required supplementary information. However, we did not audit the information and express no opinion on it.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
September 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Sullivan County, we offer readers this narrative overview and analysis of the financial activities of Sullivan County for the fiscal year ended June 30, 2008.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include General Government, County Attorney's Office, Commissioners Office, Public Safety, Corrections, Health and Welfare, Cooperative Extension and Register of Deeds. The business-type activities include Nursing Home activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements provide separate information for the General Fund and Register of Deeds operations, which are considered to be major funds.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for nursing home operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the nursing home operations, which is considered to be a major fund.

Notes to the financial statements. The notes provide additional information that are essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by the accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 4,293,147 (i.e., net assets), a change of \$ (891,266) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 1,261,647, a change of \$ 910,592 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was a deficit balance of \$ (3,906,123), a change of \$ (657,896) in comparison with the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 530	\$ 487	\$ 2,298	\$ 1,688	\$ 2,828	\$ 2,175
Non-current assets	<u>8,036</u>	<u>6,629</u>	<u>(799)</u>	<u>4,489</u>	<u>7,237</u>	<u>11,118</u>
Total assets	8,566	7,116	1,499	6,177	10,065	13,293
Long-term liabilities outstanding	145	131	193	3,610	338	3,741
Other liabilities	<u>4,361</u>	<u>3,564</u>	<u>1,073</u>	<u>804</u>	<u>5,434</u>	<u>4,368</u>
Total liabilities	4,506	3,695	1,266	4,414	5,772	8,109
Net assets:						
Invested in capital assets, net	2,943	3,201	4,293	4,489	7,236	7,690
Unrestricted	<u>1,117</u>	<u>220</u>	<u>(4,060)</u>	<u>(2,726)</u>	<u>(2,943)</u>	<u>(2,506)</u>
Total net assets	<u>\$ 4,060</u>	<u>\$ 3,421</u>	<u>\$ 233</u>	<u>\$ 1,763</u>	<u>\$ 4,293</u>	<u>\$ 5,184</u>

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Charges for services	\$ 791	\$ 847	\$ 11,233	\$ 11,172	\$ 12,024	\$ 12,019
Operating grants	613	627	-	-	613	627
County tax	10,370	9,284	-	-	10,370	9,284
Investment income	10	40	-	-	10	40
Other	227	197	84	162	311	359
Total revenues	<u>12,011</u>	<u>10,995</u>	<u>11,317</u>	<u>11,334</u>	<u>23,328</u>	<u>22,329</u>
Expenses:						
General government	2,343	2,147	-	-	2,343	2,147
County Attorney	400	373	-	-	400	373
Commissioners office	199	181	-	-	199	181
Public safety	841	825	-	-	841	825
Corrections	2,830	2,604	-	-	2,830	2,604
County Nursing Home	-	-	12,040	12,113	12,040	12,113
Health and welfare	4,957	5,025	-	-	4,957	5,025
Cooperative extension	291	282	-	-	291	282
Register of Deeds	318	354	-	-	318	354
Total expenses	<u>12,179</u>	<u>11,791</u>	<u>12,040</u>	<u>12,113</u>	<u>24,219</u>	<u>23,904</u>
Change in net assets before transfers	(168)	(796)	(723)	(779)	(891)	(1,575)
Transfers in (out)	<u>807</u>	<u>1,338</u>	<u>(807)</u>	<u>(1,338)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	639	542	(1,530)	(2,117)	(891)	(1,575)
Net assets - beginning of year	<u>3,421</u>	<u>2,879</u>	<u>1,763</u>	<u>3,880</u>	<u>5,184</u>	<u>6,759</u>
Net assets - end of year	\$ <u>4,060</u>	\$ <u>3,421</u>	\$ <u>233</u>	\$ <u>1,763</u>	\$ <u>4,293</u>	\$ <u>5,184</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 4,293,147, a change of \$ (891,266) from the prior year.

The largest portion of net assets \$ 7,236,570 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Governmental and business-type activities. Governmental and business-type activities for the year resulted in a change in net assets of \$ (891,266). Key elements of this change are as follows:

	<u>All Funds</u>
<u>Operating Results:</u>	
Deficiency of revenues over budget	\$ (1,551,055)
Expenditures less than budgetary appropriations	1,249,038
<u>Timing Differences:</u>	
Difference between prior year encumbrances and current year encumbrances	(151,026)
Current year depreciation expense in excess of current year principal debt service	(746,740)
Other timing differences	15,496
<u>Other:</u>	
Capital asset purchases	<u>293,021</u>
Total	\$ (<u>891,266</u>)

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As of the end of the current fiscal year, combined ending fund balances for all funds was \$ 1,494,556, a change of \$ (619,286) from the prior year. Key elements of this change are as follows:

	<u>All Funds</u>
Revenues in excess of budget	\$ (1,551,055)
Expenditures less than budget	1,249,038
Prior year encumbrances over current year	(151,026)
Other	<u>(166,243)</u>
Total	\$ (<u>619,286</u>)

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit of \$ (3,906,123).

The fund balance of the general fund changed by \$ 849,343 during the current fiscal year. Key factors in this change are as follows:

	General Fund
Deficiency of general fund revenues over budget	\$ (2,599)
Expenditures less than appropriations	618,210
Current year encumbrances in excess of prior year encumbrances (timing difference)	(39,977)
Other	<u>273,729</u>
Total	\$ <u>849,343</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to a deficit of \$ (4,060,190), a change of \$ (1,333,985) in comparison with the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 7,236,570 (net of accumulated depreciation), a decrease of \$ (493,871) from the prior year. This investment in capital assets includes land, buildings and improvements, and machinery and equipment.

Long-term debt. There is no outstanding debt, as capital leases were repaid in full during current fiscal year.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Board of Commissioners
Sullivan County
14 Main Street
Newport, New Hampshire 03773

SULLIVAN COUNTY, NEW HAMPSHIRE

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 221,573	\$ 18,716	\$ 240,289
Accounts receivable, net of allowances	87,624	2,157,998	2,245,622
Other assets	221,441	-	221,441
Inventory	-	35,769	35,769
Restricted cash	-	85,740	85,740
Noncurrent:			
Internal balances	5,092,139	(5,092,139)	-
Capital assets, net of accumulated depreciation	<u>2,943,471</u>	<u>4,293,099</u>	<u>7,236,570</u>
TOTAL ASSETS	8,566,248	1,499,183	10,065,431
LIABILITIES			
Current:			
Accounts payable	680,042	457,347	1,137,389
Accrued liabilities	434,745	517,581	952,326
Other liabilities	121,342	12,839	134,181
Revenue anticipation notes payable	3,125,000	-	3,125,000
Due to residents	-	85,740	85,740
Noncurrent:			
Accrued compensated absences	<u>144,881</u>	<u>192,767</u>	<u>337,648</u>
TOTAL LIABILITIES	4,506,010	1,266,274	5,772,284
NET ASSETS			
Invested in capital assets, net of related debt	2,943,471	4,293,099	7,236,570
Unrestricted	<u>1,116,767</u>	<u>(4,060,190)</u>	<u>(2,943,423)</u>
TOTAL NET ASSETS	\$ <u>4,060,238</u>	\$ <u>232,909</u>	\$ <u>4,293,147</u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
General government	\$ 2,343,176	\$ 181,909	\$ 180,157	\$ -	\$ (1,981,110)	\$ (1,981,110)
County Attorney's office	400,276	-	6,451	-	(393,825)	(393,825)
Commissioners' office	198,653	-	-	-	(198,653)	(198,653)
Public safety	840,617	79,065	128,627	-	(632,925)	(632,925)
Corrections	2,829,996	74,724	-	-	(2,755,272)	(2,755,272)
Health and welfare	4,957,298	-	297,472	-	(4,659,826)	(4,659,826)
Cooperative extension	291,158	-	-	-	(291,158)	(291,158)
Register of Deeds	317,696	455,837	-	-	138,141	138,141
Total Governmental Activities	12,178,870	791,535	612,707	-	(10,774,628)	(10,774,628)
Business-Type Activities:						
Nursing Home	12,039,097	11,232,585	-	-	(806,512)	(806,512)
Total Business-Type Activities	12,039,097	11,232,585	-	-	(806,512)	(806,512)
Total	\$ 24,217,967	\$ 12,024,120	\$ 612,707	\$ -	(10,774,628)	(11,581,140)
General Revenues:						
County tax					10,369,380	10,369,380
Investment income					9,710	9,710
Miscellaneous					226,796	310,784
Transfers, net					807,354	(807,354)
Total general revenues and transfers					11,413,240	10,689,874
Change in Net Assets					638,612	(891,266)
Net Assets:						
Beginning of year					3,421,626	1,762,787
End of year					\$ 4,060,238	\$ 232,909
					\$ 4,060,238	\$ 4,293,147

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

	General	Register of Deeds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and short-term investments	\$ 130,850	\$ 88,934	\$ 1,789	\$ 221,573
Departmental and other receivables	17,096	-	70,528	87,624
Due from (to) other funds	17,775	6,491	(24,266)	-
Advance from other funds	5,092,139	-	-	5,092,139
Other assets	221,441	-	-	221,441
TOTAL ASSETS	\$ 5,479,301	\$ 95,425	\$ 48,051	\$ 5,622,777
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 669,527	\$ 2,546	\$ 7,969	\$ 680,042
Accrued liabilities	419,831	12,527	2,387	434,745
Other liabilities	78,927	30,365	12,051	121,343
Revenue anticipation notes payable	3,125,000	-	-	3,125,000
TOTAL LIABILITIES	4,293,285	45,438	22,407	4,361,130
Fund Balances:				
Reserved for advances	5,092,139	-	-	5,092,139
Unreserved:				
Undesignated, reported in:				
General fund	(3,906,123)	-	-	(3,906,123)
Special revenue funds	-	49,987	25,644	75,631
TOTAL FUND BALANCES	1,186,016	49,987	25,644	1,261,647
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,479,301	\$ 95,425	\$ 48,051	\$ 5,622,777

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Total governmental fund balances	\$ 1,261,647
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,943,471
<ul style="list-style-type: none">• Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(<u>144,880</u>)
Net assets of governmental activities	\$ <u>4,060,238</u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

	General	Register of Deeds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
County taxes	\$ 10,369,380	\$ -	\$ -	\$ 10,369,380
Charges for services	256,633	455,837	79,065	791,535
Intergovernmental	164,398	-	448,310	612,708
Investment income	9,710	-	-	9,710
Miscellaneous	208,500	-	18,296	226,796
Total Revenues	<u>11,008,621</u>	<u>455,837</u>	<u>545,671</u>	<u>12,010,129</u>
Expenditures:				
Current:				
General government	1,925,154	-	20,572	1,945,726
County Attorney's office	385,710	-	-	385,710
Commissioners' office	195,511	-	-	195,511
Public safety	625,020	-	202,648	827,668
Corrections	2,676,700	-	-	2,676,700
Health and welfare	4,645,495	-	309,827	4,955,322
Cooperative extension	286,216	-	-	286,216
Register of Deeds	-	317,772	-	317,772
Capital expenditures	67,907	-	120,478	188,385
Debt service	127,881	-	-	127,881
Total Expenditures	<u>10,935,594</u>	<u>317,772</u>	<u>653,525</u>	<u>11,906,891</u>
Excess (deficiency) of revenues over expenditures	73,027	138,065	(107,854)	103,238
Other Financing Sources (Uses):				
Transfers in	1,640,266	-	86,914	1,727,180
Transfers out	(863,950)	(55,876)	-	(919,826)
Total Other Financing Sources (Uses)	<u>776,316</u>	<u>(55,876)</u>	<u>86,914</u>	<u>807,354</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	849,343	82,189	(20,940)	910,592
Fund Equity, at Beginning of Year	<u>336,673</u>	<u>(32,202)</u>	<u>46,584</u>	<u>351,055</u>
Fund Equity, at End of Year	<u>\$ 1,186,016</u>	<u>\$ 49,987</u>	<u>\$ 25,644</u>	<u>\$ 1,261,647</u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 910,592

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital purchases 52,709

Depreciation (350,687)

- The issuance of long-term debt (e.g., leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayments of debt 40,151

- Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

(14,153)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 638,612

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

ALL BUDGETED FUNDS

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Positive</u>
				<u>(Negative)</u>
Revenues and Other Sources:				
General Fund:				
County taxes	\$ 10,369,380	\$ 10,369,380	\$ 10,369,380	\$ -
Charges for services	263,234	263,234	256,633	(6,601)
Intergovernmental	165,323	165,323	164,398	(925)
Investment income	20,000	20,000	9,710	(10,290)
Miscellaneous	193,283	193,283	208,500	15,217
Other Funds:				
Nursing Home	13,833,091	13,833,091	12,042,246	(1,790,845)
Registry of Deeds	450,000	450,000	455,837	5,837
Grants and other	369,115	369,115	545,671	176,556
Transfers in	1,667,184	1,667,184	1,727,180	59,996
Total Revenues and Other Sources	27,330,610	27,330,610	25,779,555	(1,551,055)
Expenditures and Other Uses:				
General Fund:				
General government	2,136,407	2,211,758	1,925,154	286,604
County Attorney's office	439,559	438,059	385,710	52,349
Commissioners' office	243,225	248,096	195,511	52,585
Public safety	642,203	626,859	625,020	1,839
Corrections	2,875,086	2,875,086	2,676,700	198,386
Health and welfare	4,705,981	4,705,981	4,645,495	60,486
Cooperative extension	298,480	298,180	286,216	11,964
Capital expenditures	27,613	29,785	27,910	1,875
Debt service	80,000	80,000	127,881	(47,881)
Other Funds:				
Nursing Home	12,862,801	12,797,551	12,357,966	439,585
Registry of Deeds	377,690	377,690	317,772	59,918
Grants and other	369,115	369,115	533,049	(163,934)
Capital expenditures fund	615,500	615,500	250,008	365,492
Transfers out	1,656,950	1,656,950	1,727,180	(70,230)
Total Expenditures and Other Uses	27,330,610	27,330,610	26,081,572	1,249,038
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (302,017)	\$ (302,017)

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-Type Activities Enterprise Fund <u>Nursing Home</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ 18,716
Accounts receivable, net of allowances	2,157,998
Inventory	<u>35,769</u>
Total current assets	2,212,483
Noncurrent:	
Restricted cash	85,740
Capital assets, net of accumulated depreciation	<u>4,293,099</u>
Total noncurrent assets	<u>4,378,839</u>
TOTAL ASSETS	6,591,322
<u>LIABILITIES</u>	
Current:	
Accounts payable	457,347
Accrued liabilities	517,581
Other liabilities	12,839
Due to residents	<u>85,740</u>
Total current liabilities	1,073,507
Noncurrent:	
Advance from other funds	5,092,139
Compensated absences	<u>192,767</u>
Total noncurrent liabilities	<u>5,284,906</u>
TOTAL LIABILITIES	6,358,413
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	4,293,099
Unrestricted	<u>(4,060,190)</u>
TOTAL NET ASSETS	<u>\$ 232,909</u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Fund <u>Nursing</u> <u>Home</u>
Operating Revenues:	
Charges for services	\$ 11,232,585
Miscellaneous	<u>83,988</u>
Total Operating Revenues	11,316,573
Operating Expenses:	
Personnel services	5,308,581
Employee benefits	2,043,412
Contractual services	1,786,971
Payroll and other taxes	382,781
Therapy services	624,088
Food	522,712
Depreciation	436,203
Medicine	295,340
Medical expenses	301,931
Supplies and office expense	153,373
Repairs and maintenance	87,536
Insurance	77,552
Telephone	<u>18,617</u>
Total Operating Expenses	<u>12,039,097</u>
Operating Income (Loss)	(722,524)
Transfers:	
Transfers out:	
To fund 30	<u>(807,354)</u>
Total Transfers	<u>(807,354)</u>
Change in Net Assets	(1,529,878)
Net Assets at Beginning of Year	<u>1,762,787</u>
Net Assets at End of Year	\$ <u><u>232,909</u></u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities Enterprise Funds Nursing Home
<u>Cash Flows From Operating Activities:</u>	
Receipts for services provided	\$ 10,630,539
Miscellaneous receipts	83,988
Payments for personnel and related costs	(7,764,427)
Payments for goods and services	<u>(3,605,731)</u>
Net Cash (Used For) Operating Activities	(655,631)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	(807,354)
Receipts from internal balances	<u>1,704,449</u>
Net Cash Provided by Noncapital Financing Activities	897,095
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Acquisition and construction of capital assets	<u>(240,310)</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(240,310)</u>
Net Change in Cash and Short-Term Investments	1,154
Cash and Short Term Investments, Beginning of Year	<u>17,562</u>
Cash and Short Term Investments, End of Year	<u>\$ 18,716</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating income (loss)	\$ (722,524)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	436,203
Changes in assets and liabilities:	
Accounts receivable	(602,046)
Inventory	3,764
Account payable	204,726
Accrued liabilities	24,686
Other liabilities	<u>(440)</u>
Net Cash (Used For) Operating Activities	<u>\$ (655,631)</u>

See notes to financial statements.

SULLIVAN COUNTY, NEW HAMPSHIRE

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of Sullivan County, New Hampshire (the County) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Generally, all other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Register of Deeds Special Revenue Fund* is used to account for the proceeds of specific revenue sources and related expenditures that are associated with registry activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and

services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the County Nursing Home as a major proprietary fund.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

F. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate the portion not available for appropriation and not available as expendable financial resources.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Vehicles	5
Office and computer equipment	5

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation pay benefits. All vested vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The County follows the following procedures establishing the budgetary data reflected in the basic financial statements:

- Prior to May 1st, the County departments submit to the County Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Hearings are conducted by the County Commissioners prior to the County's budget meeting to discuss the proposed budget.

- The budget is legally enacted by the County Delegation prior to September 1st.
- Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year in which they supplement the appropriations of that year.
- The budgets for all departments and operations of the County are prepared under the direction of the County Commissioners. Original appropriations are acted upon by the County Delegation vote.
- A copy of the budget is published in the Annual Report of Sullivan County, New Hampshire.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for all funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>All Funds</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 23,326,702	\$ 23,945,988
Other financing sources/uses (GAAP basis)	<u>1,727,180</u>	<u>1,727,180</u>
Subtotal (GAAP Basis)	25,053,882	25,673,168
Nursing Home reclassifications	725,673	725,673

(continued)

(continued)

<u>All Funds</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Reverse prior year appropriation carryforwards	-	(151,026)
Convert accrual basis Nursing Home to budget basis	-	(166,243)
Budgetary basis	\$ <u>25,779,555</u>	\$ <u>26,081,572</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2008:

Domestic Violence Grant - Fund 445	\$ (90)
Cooperative Extension Service - Fund 475	(3,902)
JAG - Fund 527	(822)
Highway Safety - Fund 646	(485)
Facilities - Fund 700	(9,560)
Drug Task Force - Fund 745	(1,792)
Emergency Planning - Fund 725	(1,000)
GSCAHR Phase III Part 2 - Fund 938	(3,318)
Intervention Program - Fund 945	(3,775)
Claremont Teen Resource Center - Fund 947	(121,779)
Parents as Teachers - Fund 948	(3,284)
CAC of Grafton/Sullivan County - Fund 949	(639)
Public Health Network Coordinator - Fund 955	(993)
Total	\$ <u>(151,439)</u>

The deficits in these funds will be eliminated through future departmental revenues, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. RSA 48:16 limits "deposit in any one bank shall not at any time exceed the sum of its paid-up capital and surplus. The County does not have a deposit policy for custodial credit risk.

As of June 30, 2008, \$ 504,425 of the County's bank balance of \$ 1,223,959 was exposed to custodial credit risk as uninsured and uncollateralized.

4. Allowance for Doubtful Accounts and Contractual Allowances

The allowance for doubtful accounts for Nursing Home receivables has been estimated at \$ 350,759 at June 30, 2008. Nursing Home receivables are also reported net of contractual allowances.

5. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2008 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Advance to Other Funds</u>	<u>Advance from Other Funds</u>
General Fund	\$ 17,775	\$ -	\$ 5,092,139	\$ -
Special Revenue Funds:				
Register of Deeds	6,491	-	-	-
Grants and Fund 42	-	24,266	-	-
Enterprise Funds:				
Nursing Home	-	-	-	5,092,139
Total	\$ <u>24,266</u>	\$ <u>24,266</u>	\$ <u>5,092,139</u>	\$ <u>5,092,139</u>

6. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 4,943	\$ 308	\$ -	\$ 5,251
Equipment and vehicles	1,207	4	-	1,211
Land improvements	<u>313</u>	<u>-</u>	<u>-</u>	<u>313</u>
Total capital assets, being depreciated	6,463	312	-	6,775
Less accumulated depreciation for:				
Buildings and improvements	(2,341)	(237)	-	(2,578)
Equipment and vehicles	(869)	(76)	-	(945)
Land improvements	<u>(271)</u>	<u>(38)</u>	<u>-</u>	<u>(309)</u>
Total accumulated depreciation	(3,481)	(351)	-	(3,832)
Construction in progress	<u>259</u>	<u>-</u>	<u>(259)</u>	<u>-</u>
Governmental activities capital assets, net	\$ <u>3,241</u>	\$ <u>(39)</u>	\$ <u>(259)</u>	\$ <u>2,943</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,481	\$ 234	\$ -	\$ 8,715
Equipment	2,186	12	-	2,198
Vehicles	<u>190</u>	<u>-</u>	<u>-</u>	<u>190</u>
Total capital assets, being depreciated	10,857	246	-	11,103
Less accumulated depreciation for:				
Buildings and improvements	(4,425)	(336)	-	(4,761)
Equipment	(1,810)	(87)	-	(1,897)
Vehicles	<u>(139)</u>	<u>(13)</u>	<u>-</u>	<u>(152)</u>
Total accumulated depreciation	(6,374)	(436)	-	(6,810)
Construction in progress	<u>6</u>	<u>-</u>	<u>(6)</u>	<u>-</u>
Business-type activities capital assets, net	\$ <u>4,489</u>	\$ <u>(190)</u>	\$ <u>(6)</u>	\$ <u>4,293</u>

Depreciation expense was charged to functions of the County as follows (in thousands):

Governmental Activities:	
General government	\$ 163
Public safety	53
Public welfare	1
Department of Corrections	131
Cooperative extension	<u>3</u>
Total depreciation expense - governmental activities	\$ <u>351</u>
Business-Type Activities:	
Nursing Home	\$ <u>436</u>
Total depreciation expense - business-type activities	\$ <u>436</u>

7. Accounts Payable

Accounts payable represents 2008 expenditures paid after June 30, 2008.

8. Anticipation Notes Payable

At June 30, 2008, the County had a \$ 4,000,000 revenue anticipation line of credit dated February 12, 2007 that expires December 31, 2008, with interest at a fixed annual rate of 3.625%.

The following summarizes activity in notes payable during fiscal year 2008:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Revenue anticipation	\$ <u>2,462,038</u>	\$ <u>8,437,962</u>	\$ <u>7,775,000</u>	\$ <u>3,125,000</u>

Subsequent to year end, the above line of credit was repaid with a new line of credit of \$ 3,125,000 at 2.380%. An additional line of credit was also issued subsequent to year end for \$ 3,000,000 at 2.170%, to be used as needed.

9. Long-Term Debt

General Obligation Bonds

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/07	Additions	Reductions	Total Balance 6/30/08	Less Current Portion	Equals Long-Term Portion 6/30/08
<u>Governmental Activities</u>						
Capital leases	\$ 40	\$ -	\$ (40)	\$ -	\$ -	\$ -
Accrued vacation	<u>131</u>	<u>14</u>	<u>-</u>	<u>145</u>	<u>-</u>	<u>145</u>
Totals	\$ <u>171</u>	\$ <u>14</u>	\$ <u>(40)</u>	\$ <u>145</u>	\$ <u>-</u>	\$ <u>145</u>
<u>Business-Type Activities</u>						
Accrued vacation	\$ <u>222</u>	\$ <u>-</u>	\$ <u>(29)</u>	\$ <u>193</u>	\$ <u>-</u>	\$ <u>193</u>
Totals	\$ <u>222</u>	\$ <u>-</u>	\$ <u>(29)</u>	\$ <u>193</u>	\$ <u>-</u>	\$ <u>193</u>

10. Capital Lease Obligations

The County was the lessee of certain equipment under capital leases which expired in 2008.

11. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

12. Reserves of Fund Equity

"Reserves" of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

Reserved for Advances - An account used to segregate a portion of fund balance to indicate that advances to other funds, although a component of assets, do not represent available spendable resources.

13. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the County is involved. The County's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

14. Pension Plan

The County follows the provisions of GASB Statement No. 27, *Accounting for Pensions for State and Local Government Employees*, with respect to the employees' retirement funds.

A. Plan Description

The County contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer contributory defined benefit pension plan. NHRS provides service, disability and death, and vested retirement benefits to plan members and beneficiaries. NHRS is administered by a 13-member Board of Trustees. The Board of Trustees formulates administrative policies and procedures and authorizes benefit payments to members and their beneficiaries. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301-8509 or by calling (603) 271-3351.

B. Funding Policy

Sheriff's deputies and correctional office plan members and all other employee plan members are required to contribute 9.3% and 5%, respectively, of their annual covered salary and the County is required to contribute at an actuarially determined rate. The current rate for sheriff's deputies and correctional officers is 11.84% of annual covered payroll. The current rate for all other employees is 8.74% of annual covered payroll. The contribution requirements of plan members are fixed by statute. The County's contributions to NHRS for the years ended June 30, 2008, 2007, and 2006 were \$625,170, \$ 523,220, and \$ 499,688, respectively, equal to the required contributions for each year.

15. Self Insurance

The County participated in the New Hampshire Municipal Association Health Insurance Trust Self-Funding Plus Program (Program) through June 30, 2008. This program provided medical health benefits to eligible employees and their eligible dependents. Effective July 1, 2008, the County changed to a premium-based health insurance plan with Primex³. Claims incurred but unpaid at year end under the discontinued self-funded program were actuarially determined to be \$ 444,113 and are reflected as a liability at June 30, 2008. These claims will be repaid to Primex³ over the next two years.

Workers Compensation

The County contracts with an insurance consultant for claims processing of the County's workers compensation policy, which has no excess liability coverage for any employees. The Workers Compensation claims liability represents an estimate of future costs based on a historical analysis of similar claims for all employees excluding public safety. The County is unable to make any reasonable estimate of its liability for public safety employees.

16. Risk Management

The County is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County and other municipalities and other qualified political subdivisions of New Hampshire are members of the Public Risk Management Exchange (Primex³), a Trust organized to provide property and liability insurance coverage to its members. The County pays an annual premium to Primex³ for its property and liability insurance coverage. The premium paid in 2008 was \$ 100,577.

The coverage includes a retrospective contribution endorsement under which the County may receive a portion of its premiums back based on a loss ratio as defined in the agreement.

17. Subsequent Events - Fiscal Stabilization Plan

Although Sullivan County continues to operate with a significant deficit, the County Commissioners believe the fiscal year 2009 budget will begin to address this situation in two areas. First, the fiscal year 2009 budget more realistically estimates revenue from operations at the Nursing Home. It has proven difficult to meet the revenue expectations adopted in past budgets and this shortfall in revenue is clearly the single biggest factor contributing to the deficit. Second, the fiscal year 2009 budget includes \$ 1 million in planned deficit reduction. We believe these more realistic revenue projections, along with planned deficit reduction, will begin to move Sullivan County towards a more sound fiscal condition.

SULLIVAN COUNTY, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
1. Improve Controls Over Nursing Home Billing Procedures (Significant Deficiency)	3
2. Improve Controls Over Nursing Home Time Keeping Procedures (Significant Deficiency)	4
 <u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
3. Monitor Results of Operations and Establish Fiscal Recovery Plan (Material Weakness)	5
4. Clarify Nursing Home Budget (Material Weakness)	6
5. Close Funds 30 and 42 (Material Weakness)	7
6. Monitor Special Revenue Grant Funds (Material Weakness)	7
7. Consider Implementing Internal Control Improvements (Material Weakness)	8
8. Improve Budgeting (Material Weakness)	10
9. Record Budgeted Transfers (Material Weakness)	11



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

102 Perimeter Road
Nashua, NH 03063-1301
Tel (603) 882-1111 • Fax (603) 882-9456
www.melansonheath.com

To the Board of Commissioners
Sullivan County
Newport, New Hampshire

In planning and performing our audit of the financial statements of Sullivan County, New Hampshire as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Deficiencies considered to be significant deficiencies in internal control are noted in the table of contents and comment headings.

Additional Offices

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Deficiencies constituting material weaknesses are noted in the table of contents and comment headings.

The County's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Commissioners and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
September 26, 2008

CURRENT YEAR RECOMMENDATIONS:

1. Improve Controls Over Nursing Home Billing Procedures (Significant Deficiency)

As a result of our review of Nursing Home billing procedures, the following recommendations are intended to improve internal controls:

- Changes to resident status on the 6-part "Notice of Resident Status Change" form should be signed off by the individual authorizing the change.
- The "Billing Journal Summary" and "Transaction Totals Report" should be signed off by the Administrator to indicate that billings and adjustments have been approved by someone independent of the individual entering the transactions.
- Receipts should be handled by an individual that is independent of the billing function. This is a segregation of duties issue.

The above recommendations will improve internal controls with respect to billing procedures.

County's Response:

The Business Office Accounts Receivable Manager will ensure the Resident Status Change Forms are signed by an authorized person (Director of Nursing, Social Worker, or Nursing Home Administrator). This change in procedure has been implemented as of September 1, 2008.

As of September 1, 2008, the Nursing Home Administrator will sign off on the Billing Journal Summary and Transactions Totals Report to ensure that billings and adjustments will be approved by someone other than the individual entering the transactions.

The newly-hired Administrative Assistant receives checks, prepares the deposit, and posts deposits to accounts receivable in American Health Tech (billing software). A third party makes the bank deposit.

2. Improve Controls Over Nursing Home Timekeeping Procedures
(Significant Deficiency)

As a result of our review of Nursing Home time keeping procedures, the following recommendations are intended to improve internal controls:

- All employees should be using the hand-punch system in order to keep manual punches to a minimum.
- Consider requiring salaried employees to use the hand-punch system in order to verify that they are working in accordance with their contracts.
- Manual punches should be approved by the department head in writing on the weekly time reports.
- Individuals with access to the time keeping system should not be permitted to hand-punch their own time.
- Individuals with access to the time keeping system, including the hand-punch system, should be kept to a minimum.
- Weekly time reports should be printed, distributed to department heads, signed off by department heads, and retained.
- Consideration should be given to having the Administrator review and approve the weekly time reports after they have been signed off by department heads.
- Individuals with access to the time keeping system should not be performing all of the following; entering new employees, de-activating old employees, manually punching time, and distributing paychecks.

The above recommendations will improve internal controls with respect to timekeeping procedures.

County's Response:

Many of the recommendations in this section have been implemented. The Human Resources Department has been asked to clarify and formulate policies to address these issues on an ongoing basis.

STATUS OF PRIOR YEAR RECOMMENDATIONS:

3. Monitor Results of Operations and Establish Fiscal Recovery Plan (Material Weakness)

Prior Year Recommendation:

In fiscal year 2007, the overall County revenues fell short of budget projections by approximately \$ 491,000, and expenditures exceeded appropriations by approximately \$ 1,737,000, both primarily caused by Nursing Home operations. These unfavorable budget variances resulted in an overall net loss, and cash shortfall of approximately \$ 2.2 million, requiring the County to borrow funds to finance continuing operations.

We recommended that the County formally monitor revenues and expenditures compared to the budget on a monthly basis. We also recommended that the County establish formal plans to specifically address continuing losses from Nursing Home operations, and to permanently repay the existing bank loan. These steps are critical to reestablish fiscal stability, and the ability to continue to provide uninterrupted service.

Current Year Status:

In fiscal year 2008, the Nursing Home revenues fell short of the budget estimates by approximately \$ 1.8 million, that were offset by other revenue surplus' and appropriation turnbacks, resulting in an overall budgeted net loss of \$ 302,017.

Further Action Required:

We continue to recommend that the County formally monitor revenues and expenditures compared to the budget on a monthly basis and develop formal plans to address the continuing losses from Nursing Home operations.

County's Response:

In the second quarter of fiscal year 2008, the administration of Sullivan County, realizing there would be a significant shortfall in budgeted revenue from the Nursing Home, moved to 'freeze' \$ 750,000 of appropriated expenditures. This reduction in expenditures, along with additional expense reduction throughout the remainder of the fiscal year, resulted in a total reduction in expenses of approximately \$ 1.2 million dollars. The fiscal year

2009 budget addresses the issue of the County deficit in two ways. First, it more realistically estimates revenue from operations at the Nursing Home, and second, includes \$ 1 million dollars in planned deficit reduction.

4. **Clarify Nursing Home Budget (Material Weakness)**

Prior Year Recommendation:

Historically, it is very difficult to determine whether the approved operating budget for the Nursing Home Enterprise Fund is in balance, or reflects a budgeted surplus/deficit. The process is complicated, primarily because the transfers between funds for shared expenses and capital expenditures are not clearly identified. The existence of a budgeted surplus/deficit has a direct impact on the County's property tax rate, and must be recorded in the general ledger.

We recommended that the County clarify all budgeted sources and appropriations for the Nursing Home Enterprise fund, including transfers in and out, shared costs, and capital expenditures. This would clarify the likely effect, if any, on property taxes, and simplify the accounting and reporting of operations.

Current Year Status:

This issue continued to exist in fiscal year 2008, however, we understand that beginning in fiscal year 2009, the shared cost fund 30 and capital expenditures fund 42, will be discontinued.

Further Action Required:

The discontinuance of funds 30 and 42 will simplify the accounting for Nursing Home operations, however, it will still be necessary to record an entry in the general ledger for any budgeted surplus/deficit in order to properly reflect the impact on the County's property tax rate.

County's Response:

As stated in the management letter, funds 42 and 30 have been eliminated and we plan to record entries in the general ledger to reflect budgeted surplus/deficits from Nursing Home operations. Although these transfer

entries were not included in the fiscal year 2009 budget, we intend to make them in fiscal year 2009 and incorporate them into all future budgets.

5. Close Funds 30 and 42 (Material Weakness)

Prior Year Recommendation:

In the prior year, the County maintained a separate fund to track shared costs, such as human resources costs, and another fund to track capital purchases. These funds reported costs for the General Fund, other funds, and Nursing Home, making it difficult to determine the total cost of operating the Nursing Home, which is necessary for Medicare/Medicaid cost reporting.

We recommended that the County close funds 30 and 42, and instead report expenses directly with respective funds. This would result in a more complete accounting of Nursing Home operations and would simplify the preparation of the annual cost reports for Medicare/Medicaid.

Current Year Status:

This issue continued to exist in fiscal year 2008, however, we understand that beginning in fiscal year 2009, the shared cost fund 30 and capital expenditures fund 42, will be discontinued.

Further Action Required:

None.

6. Monitor Special Revenue Grant Funds (Material Weakness)

Prior Year Recommendation:

At June 30, 2007 approximately \$ 154,000 in deficit grant fund balances existed within special revenue funds. In addition, we found several fund balances carried over from fiscal year 2006 that had no activity in fiscal year 2007. Further, some individual balances from fiscal year 2006 were rolled forward into one "control account" causing the individual balances that comprised the total to lose their identity (these were reclassified during the audit to separate fund balance accounts).

We recommended that special revenue funds be monitored on an ongoing basis. Deficit balances should be addressed and inactive accounts closed out. The "control account" created by the system to roll forward fund balances from the previous fiscal year should be analyzed and individual balances reclassified to separate fund balance accounts. The implementation of this recommendation would provide the County with reliable financial reports that could be used to properly manage grants funds.

Current Year Status:

In fiscal year 2008, with our assistance, the special revenue balances rolled forward into the "control account" were reclassified to separate fund balance accounts to agree to the prior year audit. Deficit fund balances totaling approximately \$ 151,000 continue to exist.

Further Action Required:

We recommend that the County include the reclassification of individual fund balances from the "control account" as part of the annual general ledger rollforward process. We continue to recommend that deficit balances be addressed and inactive accounts be closed out.

County's Response:

After receiving the draft audit, we have implemented a process to review every special revenue fund to assess whether it is active or inactive. Inactive fund balances will be researched and appropriate transfers will be made to address surplus/deficit balances before closing the fund.

**7. Consider Implementing Internal Control Improvements
(Material Weakness)**

Prior Year Recommendation:

Effective for all fiscal year 2007 audits, independent auditors were required to report issues (called "significant deficiencies" and "material weaknesses") to the governing body. The definition of these terms is included in the opening letter to this management letter.

SAS 112 specifically required that certain situations, if present, must be reported as either a significant deficiency or material weakness, depending

on the extent of the risk of financial statement misstatement. The governing body of the County should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes issues that met the criteria of a material weakness in fiscal year 2007.

Document Components of Internal Control

In order to establish an effective system of internal controls, the County should document the policies, procedures and controls over key financial transactions, including cash, receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/payroll disbursements, and general ledger maintenance. This documentation could be used by departments as guidance to help safeguard assets, to properly record transactions, and to provide a basis for continuing operations when turnover occurs in key financial departments.

Corrective Action to be Considered

Several years ago, the Committee of Sponsoring Organizations (COSO) of the President's Council on Integrity and Efficiency published comprehensive internal control guidance that has recently been put in place by publicly traded companies as a result of Sarbanes Oxley. The COSO report outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

The County should consider implementing a written internal control framework using the COSO model.

Establish Internal Audit Function

Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with managements assertions, and that assets actually exist and are properly safeguarded. The County historically has relied on the independent auditor to perform these functions. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management. The COSO framework

explicitly states that management is responsible for performing internal audits. SAS 112 requires auditors to report instances where the internal audit function is not occurring or functioning.

Corrective Action to be Considered

The County should, as part of its documented internal control procedures, establish an internal audit function to properly monitor operations and assess risk of misstatement of the financial statement caused by either error or irregularities.

Current Year Status:

These recommendations have not been addressed.

Further Action Required:

We recommend that the County consider implementing the above recommendations.

County's Response:

The fiscal year 2009 budget includes funding for a management level financial position. We are currently advertising this position. We anticipate one of the responsibilities of this position will be to implement improvements to our internal control function.

8. Improve Budgeting (Material Weakness)

Prior Year Issue:

In fiscal year 2007, we found that although the overall County budget balanced, individual fund budgets were not balanced. As a result, "implied" transfers existed to balance each fund. (Also see Comments 4 and 5).

Current Year Status:

This comment has not been addressed.

Further Action Needed:

We recommend that an overall budget, comprised of individual fund budgets that are balanced, be used (also see Comment #4).

County's Response:

As stated in the management letter, funds 42 and 30 have been eliminated and we plan to record entries in the general ledger to reflect budgeted surplus/deficits from Nursing Home operations. Although these transfer entries were not included in the fiscal year 2009 budget, we intend to make them in fiscal year 2009 and incorporate them into all future budgets.

9. Record Budgeted Transfers (Material Weakness)

Prior Year Issue:

In fiscal year 2006 and 2007, we recommended that when the tax rate is set, budgeted surplus/deficits of individual funds be recorded as actual transfers between funds. This would result in improved accountability of each fund, and compliance with generally accepted accounting principles.

Current Year Status:

This issue continued to exist in 2008 (also see Comments #4 and #5).

Further Action Needed:

We continue to recommend that transfers for budgeted surplus/deficits of individual funds be made.

County's Response:

As stated in the management letter, funds 42 and 30 have been eliminated and we plan to record entries in the general ledger to reflect budgeted surplus/deficits from Nursing Home operations. Although these transfer entries were not included in the fiscal year 2009 budget, we intend to make them in fiscal year 2009 and incorporate them into all future budgets.